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Extraordinary Meeting of Governors
of African Central Banks on the
Establishment of an African
Monetary Fund

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PROPOSALS FOR ACCELERATING THE ESTABLISHMENT OF AN AFRICAN MONETARRY FUND

I. INTRODUCTION

1. The Lagos Plan of Action adopted by the African Heads of State and Government in April 1980 decided that "an African Monetary Fund should be established" as a means of co-ordinating the monetary policies of African countries. There was a recognition that the African Monetary Fund would provide a mechanism through which African countries can protect themselves and respond more effectively to the unfavourable international monetary and financial environment. Six years later, the African Heads of State and Government adopted Africa's Priority Programme for Economic Recovery, 1986-1990 (APPER) which inter-alia called for "strengthening of subregional and regional monetary and financial institutions and in this respect measures should be undertaken for an early establishment of the African Monetary Fund". Furthermore, in June 1986, the Special Sesson of the United Nations General Assembly on the Critical Economic Situation in Africa adopted the United Nations Programme of Action for African Economic Recovery and Development 1986-1990" (UN-PAAERD) which also called for the "intensification of efforts for the establishment of an African Monetary Fund".

2. The mandate and political commitment to establish the African Monetary Fund have been given, but action at the technical level has been slow and tedious. A feasibility study which was prepared in 1984 was discussed at three seperate meetings of experts from the ministries of finance and central banks. Their recommendations were submitted to the meeting of the Conference of African Ministers of Finance held in June 1986 at which Governors of Central Banks were invited.

3. However, a number of important issues remained to be resolved. The purpose of this brief paper, therefore, is to review these issues as a basis for further discussion and to suggest ways of accelerating the establishment of the African Monetary Fund.

II. CONCLUSIONS AND RECOMMENDATIONS OF THE FEASIBILITY STUDY

4. In order to provide a technical basis for the establishment of the African Monetary Fund, a study entitled "The Establishment of an African Monetary Fund: Structure and Mechanism" was jointly prepared by experts from the Economic Commission for Africa (ECA, the Organization of African Unity (OAU), the African Development Bank (ADB), the African Centre for Monetary Studies (ACMS) and the African Institute for Economic Development and Planning (IDEP) 1/. The study made the following recommendations:

A. Objectives and Functions

5. The African Monetary Fund (AMF) should have the following objectives, which are not exhaustive:

(i) To contribute to the economic development and social advancement of its member States by evolving an African monetary system which would command the confidence of its members through monetary and financial co-operation at the African regional level, and which would serve as a consultative machinery for encouraging more balanced economic growth in the member States.

(ii) To assist in providing financing for balance-of-payments support to member States experiencing deficits in their current account balances with a view to correcting such imbalances and safeguarding their economic growth through appropriate policy adjustments which take into account the critical development needs of the member States.

1/ United Nations, The Establishment of an African Monetary Fund: Structure and Mechanism (A Technical Feasibility Study), Addis Ababa, 22 January 1985

(iii) To promote stability of the African currencies through appropriate stabilization policies, including exchange rate systems, at the national, subregional and regional levels.

(iv) To promote the liberalization of exchange control regulations and eventual elimination of payments restrictions among the African countries through the promotion of convertibility of national currencies and acceptable par values and to facilitate the linkage of existing subregional clearing and payments arrangements for the purposes of enhancing intra-African trade and co-operation.

(v) To assist member States in instituting appropriate long-term "economic reformation" and stabilization programmes specifically geared to deal with the African socio-economic crisis arising from long-term effects of balance-of-payments problems and especially geared to capital mobilization and a more rational use of development resources.

(vi) To provide a machinery for the harmonization of monetary, currency and banking legislation and practices among African countries, harmonize the issue of national currencies, with a view to promoting their convertibility, including the use of a Common Unit of Account and to design mechanisms for overcoming the problems arising from the multiplicity of currencies and currency zones with a view to the eventual establishment of an African common currency.

(vii) To provide technical assistance and advisory services to member States on fiscal, taxation and budgetary policies and on the development of appropriate domestic and monetary institutions to deal with effective management and utilization of financial resources for socio-economic development.

(viii) To co-ordinate and harmonize the position of member States in international negotiations on monetary and financial issues so as to maximize their common interests and to contribute more effectively to the solutions of the world's monetary problems.

(ix) To undertake such other functions and activities as may be provided for in the Articles of Agreement establishing the African Monetary Fund.

B. Resources of the African Monetary Fund

6. The study analysed this question under a number of headings: (a) the identification of resource requirements; (b) the determination of the size of initial authorized capital of the AFM; (c) the general principles governing the allocation of capital subscriptions among members; and (d) other possible sources of funding.

7. The determination of the financial resources of the African Monetary Fund and the size of its initial authorized capital calls for very careful consideration. The success of AMF depends to a large extent on the political commitment and willingness of its members to pay their subscriptions regularly and promptly. An issue constantly borne in mind in this study has been the need to avoid placing too heavy a burden of capital subscription on individual member countries without, of course, unduly limiting the capacity of the Fund to meet the needs of its members. It may be therefore, necessary to establish a "ceiling" and a "floor" for subscriptions. Two options for the initial authorized capital of AMF are considered: US$3 bilion and US$2 billion. Three sub-options for paid-in capital are given for each. The critical element is that a "trigger" amount of capital must be put at the disposal of the Fund, otherwise its lending operations will be insignificant. For this amount, the study proposes a sum of US$1 billion. Of course, operations such as research, technical assistance and advisory services could still be carried out even before the above sum is reached. A second critical issue is whether to open the capital subscriptions to external participation. Depending upon the decision taken, the cash flows of AMF and the subscriptions of the African countries will vary markedly.

8. Regarding the method used to determine the allocation of capital subscription, the study recommends the adoption of one of three proposed formulae, namely (i) a combination of the African Development Bank formula with the International Monetary Fund formula; (ii) a formula based on 60 per cent of adjusted Gross Domestic Product plus 40 per cent of foreign trade; and (iii) adjusted Gross Domestic Product. Individual member subscriptions to initial authorized capital of either US$3 billion or US$2 billion have been calculated using each of these formulae.

9. The need is also recognized to augment capital subscriptions from other sources. It is suggested that the management of the Fund should raise additional funds from both concessional and non-concessional loans, accept deposits from African institutions and solicit grants and donations from the international community.

C. Lending Criteria, Policies and Procedures

10. The establishment of the criteria and procedures for lending by AMF is a very complex exercise, because the majority of Africa countries are not only in need of balance-of-payments suport, but also, in the United Nations sense, "least developed". The devastating impact of the wide-spread drought in Africa, which in some cases has brought about permanent changes in economic infrastructure, makes the task harder.

11. Therefore in setting out the lending policies and procedures of the African Monetary Fund outlined in Chapter IV, the following two considerations were taken as axiomatic:

(a) Africa's own institutions must have sufficient flexibility in its lending policy to take due cognizance of the problems facing its members in an interdependent world of depressed commodity prices, increasing inflation and interest rates, declining volumes of world trade, increasing protectionist tendencies, mounting external debts and chronic balance-of-payments deficits; it must take special account of the current economic crisis facing the developing African countries;

(b) The African Monetary Fund must sustain its credibility and the confidence of the international community by adopting sound and prudent lending policies; it must take care not to be portrayed as an institution for "easy credit".

12. In its lending operations, it is strongly recommended that AMF should apply certain basic criteria to all credits and other financial facilities along the following lines: (a) a country applying for financial assistance must demonstrate real need for balance-of-payments support; (b) it must have been a member of the AMF for at least six months before applying for such support; and (c) it must be up to date with its subscriptions to the Fund. Other conditions, specific to each form of financing facility, would also apply.

13. Four types of short-term financing facilities have been proposed, namely (i) Balance-of-payments Financing Facility (BPFF); (ii) Stand-by Financing Arrangements (SFA); (iii) Special Financial Arrangement for Intra-African Trade (SFAIT); and (iv) Special Food Financing Facility (SFFF). In addition to these Special Facility Funds have been proposed to meet needs arising from special circumstances such as drought, desertification and other natural disasters.

14. Because of the deep-rooted nature of the impacts of balance-of-payments deficits on Africa's economies, the study also proposes other facilities to assist member countries with "economic reformation" to correct imbalances of a medium or long-term nature. The medium and long-term facilities would focus on development financing oriented towards permanent solutions to balance-of-payments deficits and the related development problems.

D. Organizational Structure

15. It is proposed that the Fund should have the following organs:

(i) A Board of Governors

(ii) A Board of Executive Directors, to oversee the day-to-day running of the institution

(iii) A Managing Director and a Deputy Managing Director; and

(iv) A general secretariat.

16. The Board of Governors, on which all members would be represented, would be the highest decision-making body. It is proposed that Board of Executive Directors should have a total of twelve Executive Directors, of which two might be appointed by external subscribers if the Fund is open to external participation. In addition to the office of the Managing Director, which will also include a Legal Office, the following five departments are proposed: (i) a Department of Administration and Conference Services, (ii) a Department of Credit, Finance and Treasury; (iii) a Policy, Planning and Programmes Department; (iv) a Research and Statistics Department; and (v) a Department of Technical Assistance, co-operation and Human Resources Development.

E. Viability of the African Monetary Fund

17. A widely-debated issue is whether the proposed AMF can be a viable institution. This is discussed in Chapter VI. It must be understood that any discussion on the viability of such an institution can at the very best be speculative. However, on the basis of projections on inflows of member country subscription payments, incomes generated from Fund's own operations, investments and borrowing, it has been possible to draw general conclusions. The Fund's institutional viability has been examined on the assumption that its proposed lending facilities will be activated selectively as funds become available. The level of administrative expenditures incurred has also been taken into account.

18. The number of programmes implemented should depend both on the availability of resources and on the impact which each programme is likely to have on the economies of African countries. This study shows that the Fund can operate as a self-sustaining financial entity, and offer facilities that can really make a difference to its members' economic fortunes, with relatively modest injections of capital from each individual African country and no support from outside the region. In theory, therefore, it is proven viable. In practice its viability will depend on the political commitment of the African countries, which must be willing to subscribe their allotted portions of capital promptly. This is crucial, because as is the case with similar institutions, capital subscriptions are expected to be the major source of funding for a long time to come.

F. Co-operation with other institutions

19. From the analysis of the problems facing the African countries in the monetary and financial fields and the methods proposed for their solution, it is self-evident that co-operation between the proposed AMF and other institutions will be imperative. Chapter VII examines some of the areas where such co-operation would be useful. The Fund will need to establish functional and institutional relationships with other such institutions so as to avoid duplication of activities and wastage of resources. Common sense suggests that such co-operation may increase the level and quality of technical assistance and support which the Fund can offer to its member States, and hence its viability.

20. In brief, recent upheavals in the world monetary and financial system and the inability of present methods and policies to deal adequately with the African crisis have engendered a need for "economic reformation" on the African continent. Experience has shown that the African economic and social crisis cannot be easily resolved without the full involvement of the monetary and financial sector. Self-sustained economic growth through "economic reformation", the restoration of new-devastated agricultural and industrial

production capacity and a solution to the continents growing balance-of-payments problems can only come about under a stable monetary and financial regime, managed and monitored by Africa's own institution. Similarly, African economic recovery requires a sound regional monetary institution, capable of commanding the necessary confidence in the African countries and abroad through self-discipline and through the adoption of acceptable systems of international monetary and financial management. This, then, is the raison d'être for an African Monetary Fund.

III. MAJOR UNRESOLVED ISSUES

21. The second meeting of the Conference of African Ministers of Finance held in Libreville, Republic of Gabon, in June 1986, considered the recommendations of the experts from member States on the establishment of an African Monetary Fund. However, the following issues still remained unresolved:

(a) capital of the African Monetary Fund: (i) the size of the initial authorized capital; and (ii) the currency in which subscriptions should be paid and whether part of such subscriptions should be paid in national currencies

(b) determination of the size of the Board of Executive Directors;

(c) determination of eligibility for membership in the African Monetary Fund;

(d) whether or not to allow external participation in the membership of the African Monetary Fund.

22. A ministerial committee called "The Committee of Libreville" was established to propose ways of resolving the above issues and of speeding

up the establishment of the African Monetary Fund 1/. Its first meeting was held in Libreville from 31 March to 2 April 1987. While the Committee did not find solutions to all the issues, it endorsed the proposal put forward by the experts that the initial authorized capital should be fixed at 7 billion AUA (African Units of Account) 2/ of which 750 million AUA will be called and paid in during the first five years. Of that amount, 500 million AUA will be paid by Regional Members and 250 million by non-regional Members if they were allowed to participate in the capital of the Fund.

23. With regard to the size of membership of Board of Executive Directors, the Committee decided that the Board of Executive Directors should be composed of nine (9) Executive Directors of whom six (6) would represent regional members and three non-regional members. The Committee also decided that the Executive Directors should not reside at the headquarters of the Fund and approved the method of electing Executive Directors as outlined in schedule B of the Draft Articles of Agreement of the African Monetary Fund.

24. The Committee of Libreville were unable to reach a decision on the following issues (a) regional membership in the Fund; (b) whether or not part of the subscription should be paid in national currencies and in what proportion; and (c) whether to open membership for non-regional participation.

1/ The Committee of Libreville is made up of Gabon, Tunisia, Sierra Leone, Uganda and Zambia. All other African countries are entitled to participate in its deliberations.

2/ 1 AUA = 1 SDR (Special Drawing Right of the International Monetary Fund).

IV. PROPOSED MEASURES TO SPEED UP THE ESTABLISHMENT OF THE AFRICAN MONETARY FUND

A. The Need for Urgent Action

25. The need for the establishment of an African Monetary Fund has become more urgent during the past five years for the following reasons:

(a) During the past eight years, the African economic, monetary and financial environment have deteriorated into a crisis which threatens the very foundations of economic growth and development. Domestic incomes and savings as well as private foreign investment in many African countries are too low to support viable economic activities. Moreover, inflation and balance of payments deficits have become chronic and make it difficult to implement appropriate monetary policy;

(b) At the end of 1987, Africa owed over US$220 billion with an annual debt service obligation of about US$35 billion. The external debt service obligations of African countries continue to grow at the rate that cannot be sustained by the existing financial resources. Moreover, resources are being diverted from development and growth-oriented projects and programmes to meet the debt service obligations;

(c) Since the early 1980's, the international monetary and financial indicators show continued volatility of the international monetary system as evidenced by the following characteristics: (i) exchange rate fluctuations of major world currencies especially the US dollar *vis-a-vis* the other currencies in which international trade is denominated; (ii) real interested rates still remain very high; (iii) international economic recession which was accompanied by

the collapse in commodity prices and the decline in export earnings affects African countries more adversely than the rest of the world; (iv) there is a decline in resource inflows into Africa, especially on concessional terms. This is aggravated by significant outflows of capital and other resources from Africa through principally the activities of transnational corporations and their transnational banks; (v) IMF's adjustment programmes which entail the adoption of policies and measures have invariably proved to be deflationary by nature and had contractionary effects on national incomes partly due to the non-flexibility conditionality attached to the access to IMF's resources;

(d) There is a consensus emerging that the African monetary policies need the full backing and support of a strong and autonomous institution. The African Monetary Fund if established could therefore provide the means for African countries to deal more effectively with the current monetary and financial crisis.

B. Proposed Solutions to unresolved Issues

26. Since the second meeting of the Conference of African Ministers of Finance on the Establishment of an African Monetary Fund held in June 1986, consultations with African monetary authorities have continued so as to find mutually acceptable solutions to the outstanding issues. Based on these consultations there is a consensus emerging that the African Monetary Fund should be established without further delay. Governors of African Central Banks should agree to resolve the issues listed below with the spirit of understanding and compromise. The following proposals have been made as a basis for discussion and decision:

a) Authorized Capital of the Fund

27. The feasibility study proposed an initial authorized capital of 2 billion AUA. However, since early 1985, when the recommendation was made, considerable

changes have taken place in the economic and financial situations of the African countries. Domestic monetary and financial structures find it increasingly difficult to mobilize adequate resources for balance-of-payments support. There is now evidence to support the view that the proposed amount of authorized capital cannot be adequate to effectively support balance-of-payments shortfalls arising out of medium and long-term structural problems. Moreover, recent experiences in the ADB and the World Bank have demonstrated that issues of General Capital Increase are generally very sensitive and difficult to resolve once members have agreed on a given amount. Therefore, serious consideration should be given to fixing the "initial authorized capital" at 5 billion AUA with the understanding that the "called-up" capital could be decided at low percentages each time as and when desired. This is to avoid the problem of envisaging a general capital increase within a period of less than ten years.

(b) Payments of subscriptions

28. It is proposed that payments of subscriptions should be paid in AUA only (or convertible currency) and that no portion of such subscriptions should be paid in national currencies. Experience in similar institutions shows evidence of tremendous difficulties in the use of national currencies for Fund operations.

(c) Size of the Board of Executive Directors

29. The Committee of Libreville proposed that the Board of Executive Directors should consist of nine (9) Executive Directors and nine (9) Alternate Executive Directors. Out of this, if non-regional participation is allowed, three (3) Executive Directors and three (3) Alternate Executive Directors could be elected from non-regional members.

(d) Membership in the African Monetary Fund

30. It is proposed that the "original members" of the African Monetary Fund should be those African States who are members of the African Development

Bank and whose governments have become parties to the Agreement establishing the African Monetary Fund.

31. A State which is not an original member may become a member upon accession to the Agreement Establishing the African Monetary Fund and on terms and conditions that may be stipulated by the original members.

(e) Non-Regional Membership

32. Based on the experience of the African Development Bank Group, it is proposed that membership in the African Monetary Fund should be open to non-regional participation on terms and conditions to be agreed by its members. There is ample evidence to suggest that non-regional participation would strengthen the capital base of the African Monetary Fund and would facilitate negotiations for raising funds from the developed countries and their national and international banking and financial institutions.

C. Follow-up Action

33. On the basis of the foregoing, it is proposed that African countries should consider adopting the following measures to speed up the establishment of the African Monetary Fund:

(a) A Contact Group should immediately be established to be responsible inter-alia for (i) speeding up the preparations for the establishment of the African Monetary Fund; (ii) making necessary contacts at appropriate levels, with African Ministers Responsible for Finance as well as financial and monetary institutions both within and outside Africa to facilitate its creation; and (iii) providing technical support and advice to the Conference of African Ministers of Finance on their meetings related to the establishment of the Fund. The membership of the Contact Group should be made up of the current chairman of the Association of African Central Banks (who will be its chairman); the Chairmen of the subregional Associations of African

Central Banks; the Governors of BEAC and BCEAO; and the Executive Secritaries of WACH, CACH and the PTA Clearing House. The contact Group would be serviced by the joint secretariat (ECA, OAU, ADB, ACMS);

(b) Consultations should be held regularly among Governors of African Central Banks through the subregional associations of African Central Banks to review the monetary and financial aspects with a view to speeding up the establishment of the African Monetary Fund; such consultations should also involve the Governors of the Central Bank of Central African States [Banque centrale des Etats de l'Afrique de l'Ouest (BCEAO)]; the West African Clearing House; the Central African Clearing House; and the PTA Payments and Clearing House;

(c) The report of the Contact Group should be submitted to the next meeting of Governors of African Central Banks to be held immediately before the meeting of the Conference of African Ministers of Finance on the establishment of the African Monetary Fund. To this end, the Central Bank Governors should constitute a body to provide technical support and advisory services to the meetings of the Conference of African Ministers of Finance on monetary and financial issues;

(d) The joint secretariat (ECA, OAU, ADB and ACMS) should in the meantime, revise the feasibility study taking into account recent developments in the financial and monetary fields at the subregional, regional and international levels. Where significant changes have occured new and concrete proposals should be made in the structure and operations of the proposed Fund to be examined by Central Bank Governors at subsequent meetings.